American Quasar Petroleum Co. 1973 Annual Report

Contents

About American Quasar:

American Quasar Petroleum Co. is an oil and gas exploration and production company formed in Fort Worth, Texas, in 1969. Our exploration concept is founded on basic ideas, common sense, and the following operational premise:

(1) A large portion of the remaining oil and gas reserves on the North American Continent is located at depths in excess of 15,000 feet — offshore on the Continental Shelves, in Alaska, and in the remote, frontier regions of Canada. The odds of finding hydrocarbon reserves in these areas are substantially better than in the more exploited shallow-to-medium-depth areas of the United States.

(2) The shortage of energy would create a condition of escalating prices and transactions favorable to producers of new oil and natural gas reserves.

(3) Exploration for large hydrocarbon reserves in deep and/or remote areas is very costly. Adequate exposure to this kind of exploration would require large amounts of capital, and the source of this capital would be the public.

American Quasar originates exploration projects, supervises the drilling and completion of wells and the production of hydrocarbons in the United States. Quasar Petroleum Ltd., an 81 percent-owned subsidiary, performs similar activities in Canada. Canadian-American Resources Fund, Inc., a wholly-owned subsidiary, was formed to raise large sums of public capital for joint-venture exploration and development activities conducted by the two Quasar companies.

Ours is an asset growth company with estimated net proved reserves, as of December 31, 1973, of 1,675,000 barrels of oil and 122 billion cubic feet of gas. Future net production revenues for these proved reserves are estimated at $84,100,000, with a present net worth of $50,100,000 — based upon appraisals by independent petroleum engineers.

Our exploratory success ratio, from 1970 through 1973, amounted to 26 percent, compared to an industry average for the U.S. and western Canada of approximately 11 percent. Our cost of finding oil and gas remains among the lowest in the industry, amounting to approximately 55 cents per barrel of oil and natural gas equivalent — based on a conversion factor of 10 thousand cubic feet of gas equal to one barrel of oil.

FINANCIAL HIGHLIGHTS

	Year ended December 31, 1973	1972	Change
Oil And Gas Revenues	**$2,487,000**	$1,302,000	$1,185,000+
Net Income (Loss)	**$133,000**	($653,000)	$786,000+
Per Share	**$.03**	($.15)	$.18+
Working Capital Provided By Operations	**$820,000**	$69,000	$751,000+
Total Assets	**$33,731,000**	$16,555,000	$17,176,000+
Shareholders Equity	**$5,018,000**	$4,673,000	$345,000+
Per Share	**$1.16**	$1.08	$.08+
Average Common And Common Equivalent Shares Outstanding	**4,335,000**	4,303,000	32,000+

OPERATIONAL HIGHLIGHTS

	Year ended December 31, 1973	1972	Change
Net Reserves:			
Oil (barrels)	**1,675,000**	1,166,000	44%
Gas (billions cu. ft.)	**122**	63	93%
Net Production:			
Oil (barrels)	**289,978**	216,329	34%
Gas (billions cu. ft.)	**3.47**	2.08	67%

Cover:
A barge-mounted rig drilling for American Quasar and partners in the marsh country of southern Louisiana. Our exploration activities were extended into this area for the first time during 1973.

Above Left:
With a new rig on location, drilling operations have resumed on the Patterson #1, in Converse County, Wyoming — a probable significant oil and gas discovery.

Annual Meeting:
The annual meeting of shareholders will be held at 4:00 p.m. Wednesday, May 15, 1974, in the Palm Room, 10th floor, of the Fort Worth Club, Fort Worth, Texas.

Four years after the organization of American Quasar Petroleum Co., we have achieved a modest profit, and prospects are favorable for the continued growth of our Company and expansion of our income potential.

American Quasar's consolidated revenue from sales of oil and gas during January of 1973 was $142,000. During December of 1973, that same revenue had risen to $365,000. Of this increase, only 38 percent was due to increases in the price of oil. The remaining 62 percent was due to increased production from the successful development of previously discovered oil and gas fields and new discoveries in 1973. Of these fields discovered by the Quasar companies, only 20 are fully developed; 30 will continue to be developed during 1974 and future years.

Based upon independent engineering estimates, the Company had future net proved production revenues of $30,700,000 as of December 31, 1972. At year-end 1973, that figure amounted to $84,100,000 — an increase of 174 percent.

Our Company participated in the drilling of 72 exploratory wells which were commenced in 1973. Of the 58 wells completed by March 15, 1974, 15 resulted in the discovery of new oil or gas fields, providing a discovery ratio of 26 percent.

In fields with established reserves, the Company participated in the drilling of 63 development wells which were begun during 1973. Of these, 35 of the 51 wells completed by March 15, 1974 were producers.

Out of the total of 135 wells in which we participated, 45 were deeper (or projected deeper) than 13,000 feet, with the deepest projected to a total depth of 25,500 feet. Compared to an industry average of 4,950 feet, the average depth of our wells — started during 1973 and completed by March 15, 1974 — was 9,451 feet. In all, the total drilled footage of wells in which we participated was 1,030,107 feet (excluding wells still drilling at the time of this report).

Oil and gas sales during 1973 amounted to $2,487,000, a significant increase over oil and gas sales of $1,302,000 for 1972. Of the 1973 sales, $280,000 was obtained from producing oil and gas properties that were owned by the Company on January 1, 1971, and $276,000 from producing properties acquired during 1971. The remainder came from properties we developed since then, in joint venture with public limited partnerships formed and managed by the Company's wholly-owned subsidiary, Canadian-American Resources Fund, Inc., (Can-Am).

Sales of oil and gas should increase in the coming year, over 1973, as a result of: (1) planned development of producing fields which were only partially developed; (2) bringing into production wells which are currently shut in; (3) a full year's production from wells completed late in 1973. A further increase could come as a result of new discoveries — from wells presently drilling and to be drilled.

It is important to note that a large portion of our revenues from oil and gas sales is not, under current regulations, subject to government price restrictions. To illustrate, during the month of December, 1973, the Company's revenues from oil and gas sales amounted to $365,000, of which approximately 90% came from sales of intrastate gas and U. S. oil production not subject to federal price restrictions. Intrastate gas sales, which accounted for 38% of December revenues, are under contracts subject to periodic price redeterminations, with the price to be paid to the Company to equal the maximum prices being paid in the given production areas at the time of redetermination.

Can-Am funded public limited partnerships totaling $47.5 million in 1973. The last of the three partnerships closed six weeks earlier than in previous years, and it was apparent that more money could have been raised. Can-Am management felt, however, that the amount raised was as much as was prudent for commitment to drilling prospects. As of March 15, 1974, $25 million of the funds raised for the 1973 drilling programs has been spent, or committed, to wells either completed as producers or plugged as dry holes, with 33 wells still being drilled. The $47.5 million funded by Can-Am for the year was the largest of any public drilling fund in the nation[1], amounting to 13.7 percent of all public funds raised. The first limited partnership for 1974 was closed in March with $14.7 million in capital.

Since its inception in 1970, Can-Am has funded $96 million for joint venture drilling with the Quasar companies. Under this operational plan, the Quasar companies are responsible for all the tangible drilling costs, while the Can-Am limited partners provide funds for all the intangible costs. Revenues from successful drilling are then shared, with 60 percent going to the limited partners and 40 percent accruing to the Quasar companies.

Our Company's exploration and operating personnel have done an outstanding job in carrying out an aggressive and successful drilling program during 1973. Our administrative and financial people, likewise, have done an excellent job of planning, budgeting, and controlling our growth.

We believe it has been this combination of sound concept, outstanding people, adequate financing and hard work that made 1973 the year of greatest growth in the history of our Company. Our reserves of oil and gas, and consolidated income, are substantially up over a year ago. We turned our first profit in 1973 — $133,000 as compared to a $653,000 loss in 1972. We anticipate further substantial increases in income and proven hydrocarbon reserves in 1974.

[1]*According to a survey published in the Feb. 18, 1974, issue of the* Oil & Gas Journal.

The executive committee of American Quasar Petroleum Co. Standing left to right, are C. O. Ted Collins, Jr.; Walter A. Schmid, Jr.; and David A. McMahon. Seated, left to right, are Wilford B. Fultz and Dick Lowe.

Respectively submitted by the executive committee:

Wilford B. Fultz
Chairman of the Board

David A. McMahon
Vice Chairman of the Board

Walter A. Schmid, Jr.
Chairman of the Executive Committee

Dick Lowe
President

C.O. Ted Collins, Jr.
Executive Vice President

American Quasar Petroleum Co. was founded to search for oil and gas in areas which we believe to hold the greatest potential for finding large hydrocarbon reserves — deep, in some of our known sedimentary basins, and in remote areas where the physical difficulties of drilling and marketing the products have left the regions relatively unexplored. These are the areas which offer the most favorable risk-to-gain ratios for exploration.

Concentrating on building reserves and future income, we have always emphasized exploration activity. In the United States, our search has centered on three deep basins — the Delaware Basin in West Texas, the Anadarko Basin of Oklahoma and the Texas Panhandle, and the deep Jurassic Trend, inland along the northern coast of the Gulf of Mexico. In Canada, we have concentrated exploration on the plains of Alberta and in the Rocky Mountain foothills of eastern British Columbia.

In 1973, we added three new exploratory regions which we believe to hold great potential — the Rocky Mountains of the western United States, the Arkoma Basin of Oklahoma, and the deep Miocene area of southern Louisiana.

As exploratory discoveries continue to increase our inventory of proven reserves, it is anticipated that our Company will develop a stronger commitment to development drilling and the construction of production facilities to boost total revenues. But for long-range growth, American Quasar will continue to emphasize exploration.

Exploration activities were extended into the Rocky Mountain region for the first time in 1973. The Federal 12-7 (opposite page) is one of three wildcat wells drilling on the windswept plains of eastern Wyoming.

The American Quasar office in Midland, Texas, directs our exploration activities in West Texas, Oklahoma, and New Mexico. This area has produced the greatest portion of our deliverable oil and gas to date, and it contains many sound prospects for future exploration.

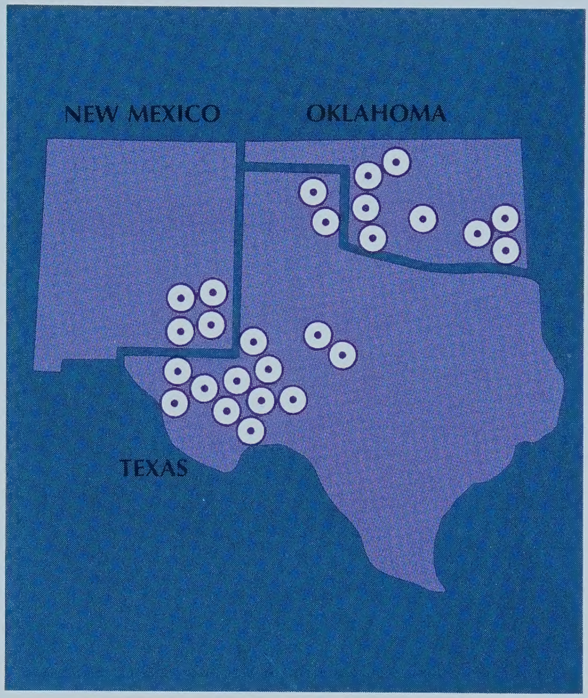
In the three-state area, we drilled 76 wells in 1973, and we have an estimated joint-venture budget of $15.5 million for drilling during 1974.

In the Deep Delaware Basin of West Texas, our main drilling objectives are the Fusselman and Ellenburger zones, where potential reserves of natural gas range from depths of 10,000 to 23,000 feet. This is the area that produced our first major gas discovery, the Quito Field, in the Fusselman formation, in 1971.

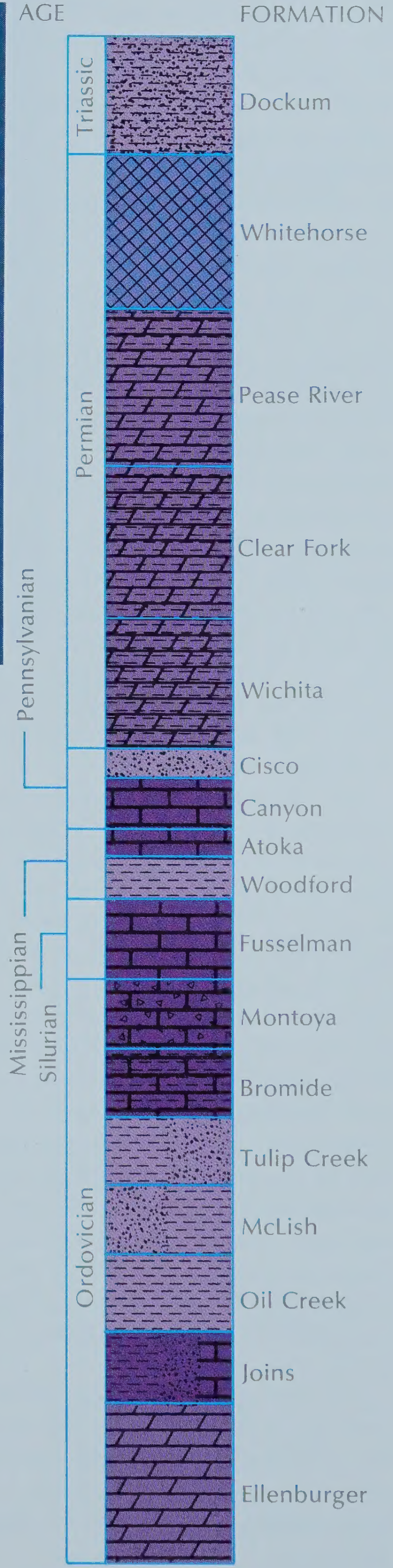
Extending from the Texas Panhandle into western Oklahoma is the Anadarko Basin, where some of the deepest wells in the world are being drilled in search of major reserves of natural gas that are believed to exist in the Hunton limestone and other geological formations. The Company is presently participating in the drilling of two ultra-deep tests in this area, both with total depths projected in excess of 23,000 feet.

Shallower is the Morrow Sand Trend, which is another of our primary drilling objectives in the Anadarko Basin. Of Pennsylvanian age, this formation trends all the way from Oklahoma to New Mexico at depths of 12,000 to 14,000 feet. In Oklahoma, we are actively developing two significant gas discoveries in the Morrow — the South Harmon and the West Vici. By March 15, 1974, four gas wells had been completed in the two fields and five were still drilling. In New Mexico, four wells were targeted for the Morrow during 1973; two resulted in gas discoveries (presently shut in) and two were dry holes.

Our most significant discovery in the Texas-Oklahoma-New Mexico area during 1973 was the San Martine Field, in Reeves County, Texas. The discovery well, the Touchstone #1, was drilled to a total depth of 10,956 feet in the Fusselman formation. Two subsequent wells have been completed as producers in the field.



The shaded portions on the map (above) outline the general areas of exploration in the Texas-Oklahoma-New Mexico region. The chart (right) shows a typical cross section of geological strata in the region.



In 1973, our oil and gas exploration activities were extended into the Rocky Mountains of the western United States, from new division headquarters offices in Denver, Colorado. It is the Company's belief that the Rockies offer one of the best remaining opportunities — on shore in the lower forty-eight states — for the discovery of significantly large oil and gas fields.

The two prime areas of our current exploration are the Powder River Basin, in north-central to eastern Wyoming, and the Green River Basin, which extends from southwestern Wyoming into northeastern Utah and the northwestern corner of Colorado.

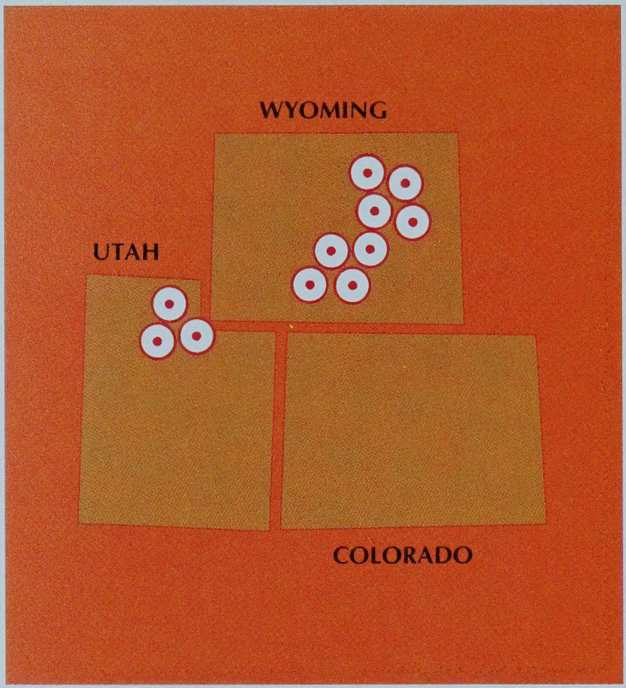
American Quasar's exploration program in the Powder River Basin is targeted to test three geological zones believed to have high reserve potentials. Of Cretaceous age, they are the Frontier, the Muddy, and the Dakota sands, with depths varying from 12,000 to 15,000 feet.

Our first well in the area was the Patterson #1 (Bear Creek Prospect) in Converse County, Wyoming. The well blew out and caught fire in early December, 1973, during a coring operation in the Frontier formation. There were no personal injuries, but the drilling rig was destroyed. Chapparral Resources, Inc., which also has an interest, was operator of the well at the time. Subsequent to the blowout, American Quasar has taken over operation of the well. A new drilling rig has been moved onto the location, the hole has been cleaned up, and normal drilling operations have been resumed. It is targeted to 14,600 feet. Two additional wildcat wells are currently being drilled in the area.

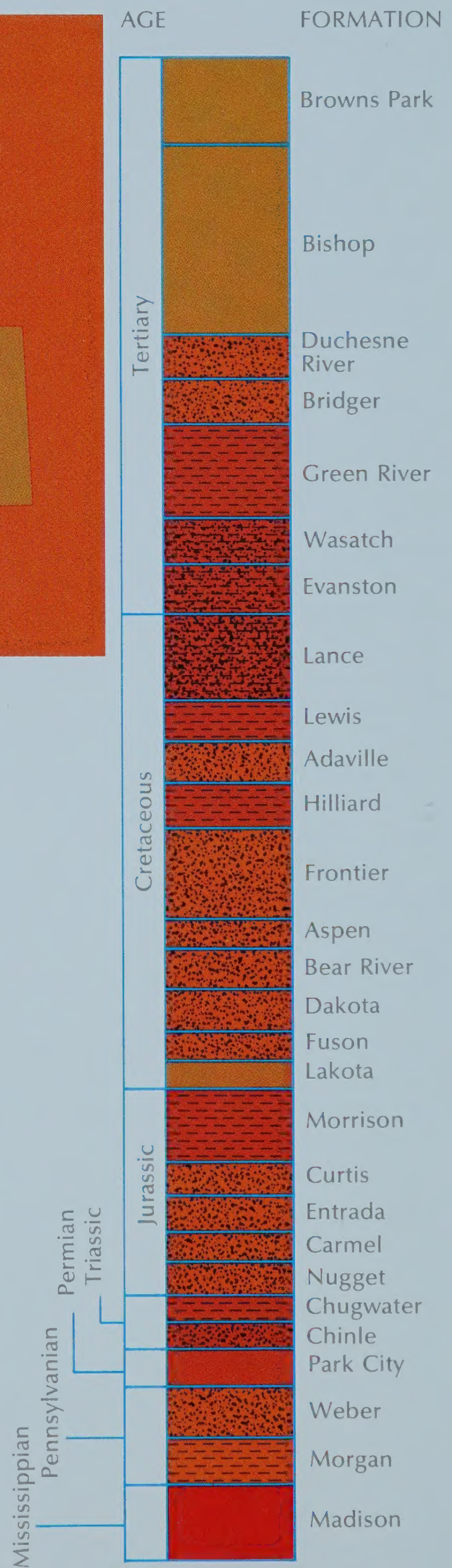
The majority of the cost of the blowout was covered by insurance. Before the well was brought under control, flow rates of oil and natural gas indicated it to be a potentially large discovery.

The Green River Basin, in the Wyoming-Utah-Colorado corner, shows considerable promise, with potentially large anomalies believed to exist in the Nugget, Weber, Park City, Madison, and Morgan formations at depths ranging from 12,000 feet to 19,000 feet. The Company is currently drilling two prospects in this area — the Pineview (Newton Sheep Co. #1) in Utah, and the Browning (Federal #1) in Wyoming. Both are targeted for the Weber formation.

For the Rocky Mountain area, American Quasar has estimated a joint venture drilling budget for 1974 of $13 million.



The Green River Basin, in the Wyoming-Utah-Colorado corner, and the Powder River Basin, in eastern Wyoming, are our present exploration targets in the mountain states. A geological cross section in the Green River area is shown at right.



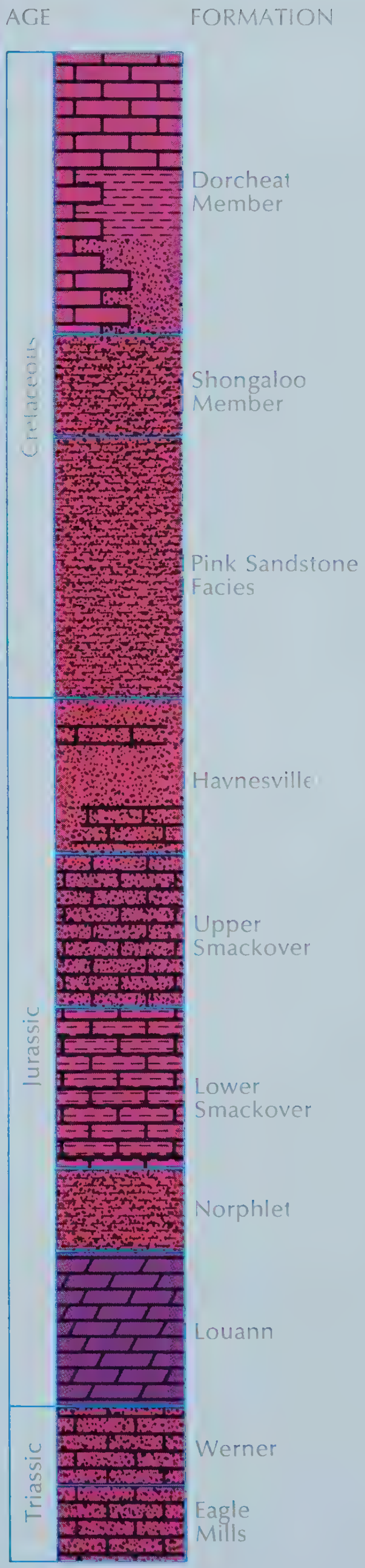
Exploration activities for this area are headquartered in New Orleans, Louisiana, and primarily cover the Jurassic Trend, which extends from the Gulf of Mexico into Florida, across Alabama, Mississippi, and into Louisiana. Drilling objectives there vary from 12,000 to 18,000 feet.

Testing the Smackover formation, in the middle Jurassic, American Quasar drilled three oil discoveries in Mississippi during 1972. The wells showed potential flow rates ranging from 100 to 1,400 barrels per day.

Promise is held for the discovery of large reserves in the deep Miocene and Oligocene plays in south Louisiana, at depths ranging from 14,000 to 20,000 feet. At present, two wells are being drilled to test these formations.

The estimated 1974 joint venture budget for drilling in the Southeastern States is $7 million.

Originally centered in Mississippi, our exploration activities in the southeastern states were spread into southern Louisiana during 1973 (both indicated in shaded areas above). Typical geological strata in Mississippi are shown at right.



The plains of Alberta and the Rocky Mountain foothills of Alberta and British Columbia are the two main areas of exploratory drilling activity currently being pursued by our Canadian subsidiary, Quasar Petroleum Ltd.

Large reserves of natural gas are believed to exist in the unexplored regions of the foothills. A probable major discovery, the Grizzly Valley Field, was made in this area by Quasar Petroleum in 1971. Though complete evaluations are not yet available, its reserve potential has been estimated at several trillion cubic feet of natural gas.

The field is located 70 miles south of Dawson Creek, British Columbia. To date, Quasar Petroleum has drilled four wells in the Grizzly Valley area and two are still drilling. Of those completed, three are producers and one was a dry hole.

The main zones of interest in the Grizzly Valley Field are the Nikanassin, Baldonnel and Halfway formations. Our most significant well in the area, up to the time of this report, is the A-2 (also designated A-85-g), which has been tested at 42 million cubic feet of gas per day through a one inch choke, at 2,380 pounds per square inch flowing pressure.

Completed wells capable of producing in the field are presently shut in, but Alberta and Southern Gas Co., Ltd., has contracted to purchase the gas produced in the area. Pending construction of a pipeline into Grizzly Valley, we anticipate delivery of gas under the contract to begin in 1976 or sooner.

Four exploratory wells are currently being drilled in the outer foothills of British Columbia, outside the Grizzly Valley Field.

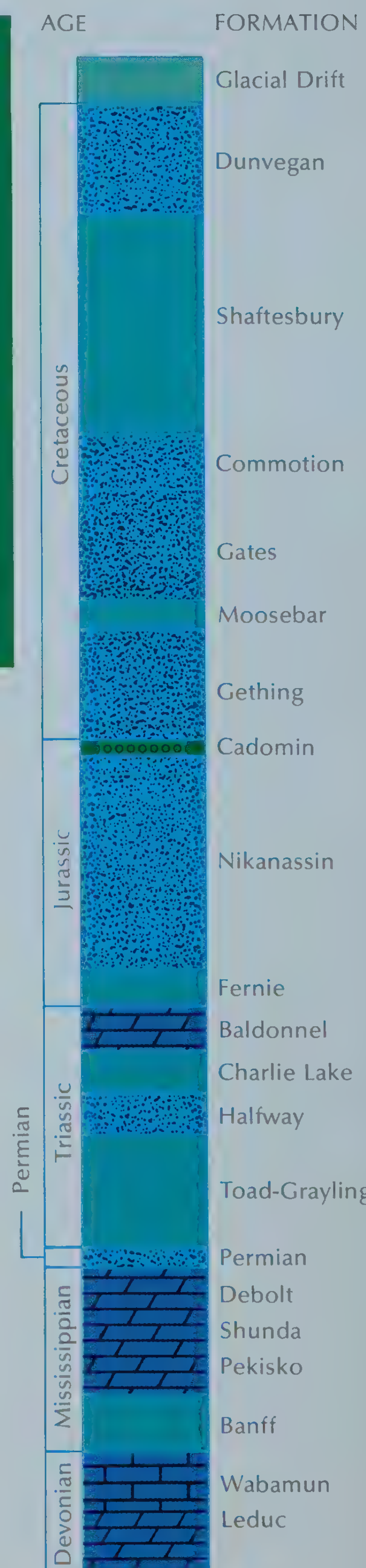
The drilling season in many remote regions of Canada is short. With no roads into the areas, overland transportation must be postponed until the ground is solidly frozen — varying from November to mid-January — before the muskeg terrain (a spongy, unstable surface) can accommodate the passage of

The stratigraphic chart (right) denotes the geology of the Grizzly Valley area (outlined above in eastern British Columbia) where Quasar Petroleum Ltd. has made a major gas discovery. We have established oil and gas production in the plains of Alberta.

heavy vehicles. The regions become impassable when the spring thaw, or "breakup" comes, usually about mid-March, effectively shutting down all remote drilling operations.

Throughout Canada, the estimated joint venture drilling budget for 1974 is in the $10 million to $15 million range. In addition to further exploration in the Grizzly Valley area, wildcat wells are also scheduled to be drilled in the plains area of Alberta, where Quasar Petroleum has already established production in both oil and natural gas. Exploration in Alberta will be concentrated in the Swan Hills Lake, Peace River Arch, and Sylvan Lake areas.

Crewmen aboard a drilling barge in southern Louisiana (opposite page) connect a string of pipe to go back into the hole following a downhole cementing job.



Increased development drilling and the completion of production facilities are expected to provide a substantial boost to our production and sale of oil and gas during 1974.

Historically, approximately 25 percent of our drilling activity has been devoted to development wells. For 1974, however, development wells are [illegible] to account for approximately [illegible] of our drilling expenditures.

Development activity in the Quito [illegible], Texas, is expected to provide [illegible] substantial production [illegible] 1974. At Quito, the first [illegible] discovered and developed [illegible], we presently [illegible] gas wells. Two additional development wells are [illegible] the field this year. Current [illegible] from the Quito Field [illegible] million cubic feet of [illegible] which American Quasar [illegible] of 14 percent.[1] Ultimate [illegible] is expected to exceed [illegible] million cubic feet per day.

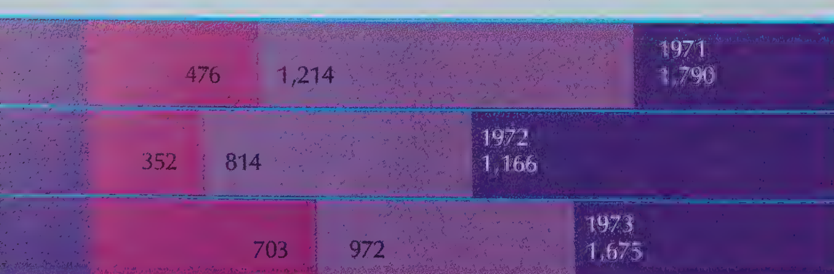
[illegible] well is expected to [illegible] during 1974 in the San Martine [illegible] of West Texas [illegible] our most [illegible] of 1973. Also [illegible] Caldwell Prospect, the [illegible] "[illegible]stone" wells com-

STATUS OF IMPORTANT FIEL

Field Name
Quito Fusselman
San Martine
Grizzly Valley
Wynne
Sylvan
Davidson Ranch
Hale
(Worsham Prospect)[1]
Sylvan Lake Viking A
(S. Harmon)[1]
Warwink
Block 16
Gomez
Boyce
W. Med. River
S. W. Sharon
(Ojo Chiso Prospect)[1]

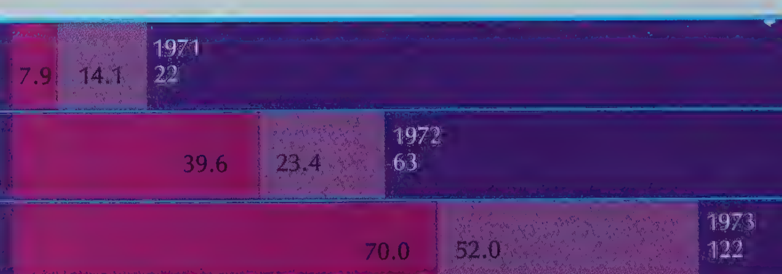
[1]Unnamed field
[2]Producing
[3]Shut in
[4]Million cubic feet per day
[5]Barrels of oil per day
[6]Assuming successful development

3 YEAR COMPARISON OF TOTAL PROVED OIL RESERVES (Thousands of Barrels)



December 31 Canada U.S.

3 YEAR COMPARISON OF TOTAL PROVED GAS RESERVES (Billions of Cubic Feet)

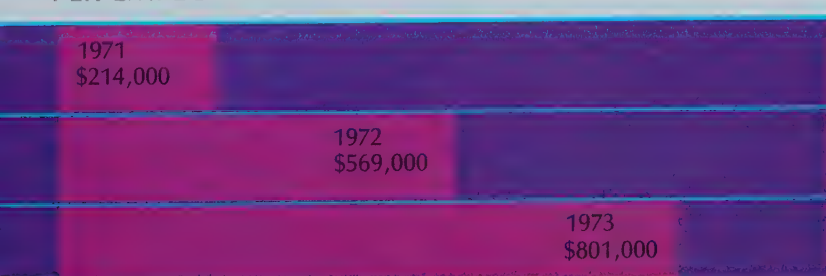


December 31 Canada U.S.

EVELOPMENT AS OF MARCH 15, 1974

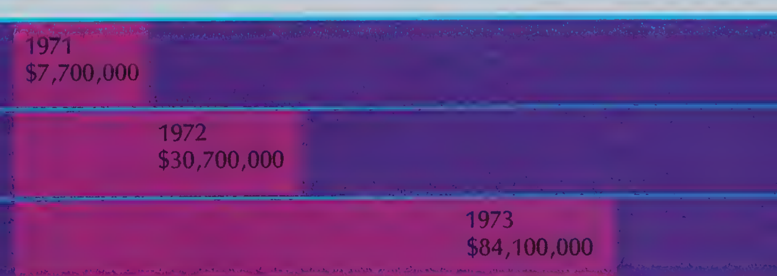
ocation	Completed	Drilling	1974 Planned Development	Planned Development After 1974	Status	Gross Production Current	Ultimate Potential Production[6]	Average Net Revenue Interest
exas	4	1	2	none	Prod[2]	50 MMCFD[4]	75 MMCFD	14%
exas	3	—	1	1	2 Prod 1 S.I.	28 MMCFD	38 MMCFD	14%
. C.	3	1	1	14	S.I.		300 MMCFD	18%
exas	14		2	4	Prod	1 MMCFD 800 BOPD[5]	1 MMCFD 900 BOPD	26%
lberta	4	—	1	—	S.I.		22 MMCFD 400 BOPD	7%
exas	14	—	15	none	S.I.		14 MMCFD	31%
Aiss	3	—	—	—	Prod	310 BOPD	510 BOPD	21%
exas	1	1	2	6	S.I.		100 MMCFD	22%
lberta	7	—	1	—	Prod	150 BOPD	170 BOPD	32%
)kla	1	3	5	2	S.I.		15 MMCFD	16%
exas	1	1	1	none	Prod	15 MMCFD	27 MMCFD	5%
exas	1	—	—	—	Prod	35 MMCFD 1000 BOPD	35 MMCFD 1000 BOPD	.1%
exas	1	—	—	—	Prod	30 MMCFD	30 MMCFD	5%
Aiss	1	—	1	2	Prod	120 BOPD	400 BOPD	24%
lberta	2	1	2		Prod Gas S.I.	200 BOPD	400 BOPD 7 MMCFD	8%
)kla	3	2	3		Prod	1 MMCFD 40 BOPD	2 MMCFD 80 BOPD	7%
J. Mex	1	—	1	1	S.I.		4 MMCFD	14%

FUTURE NET PROVED PRODUCTION REVENUES PER EMPLOYEE



December 31

GROWTH IN FUTURE NET PROVED PRODUCTION REVENUES



December 31

pleted in the field during the year are currently producing natural gas at the rate of 28 million cubic feet per day. Our third completed well is expected to go into production in the near future, at an estimated rate of 5 million cubic feet per day, and one more well is planned for the field in 1974. Our net interest in the San Martine is approximately 14 percent.

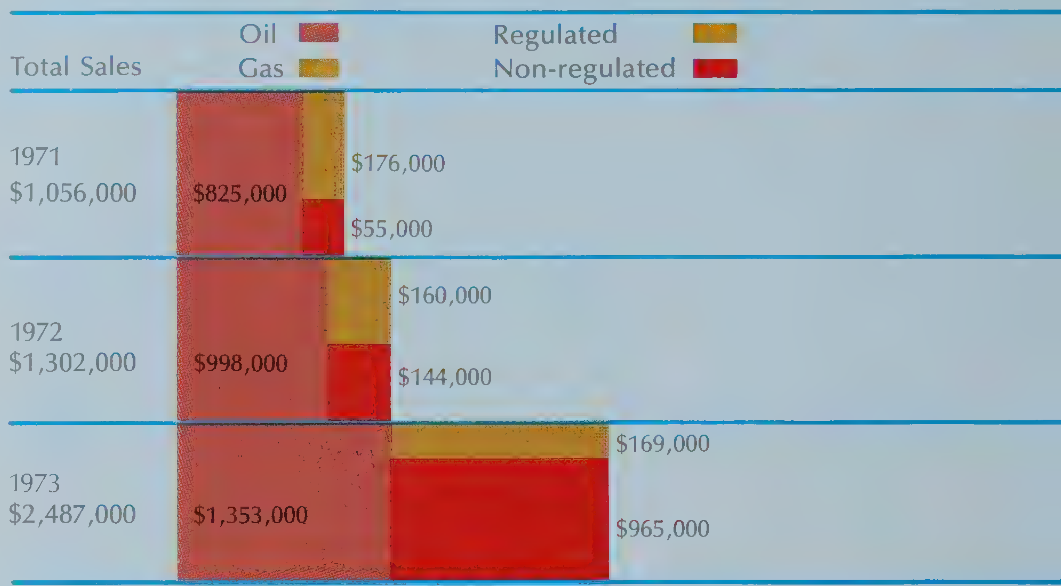
From a numerical standpoint, our most concerted development activity during 1974 will be in the Davidson Ranch Field, in Crockett County, Texas.

The 14 completed gas wells in the ... currently shut in but soon to be connected to a pipeline, have a gross production potential of 7 million cubic ... per day. Fifteen additional development wells are planned for the field in 1974, and they are anticipated to double this production potential. American Quasar's net interest in the Davidson Ranch wells is 31 percent.

In the Wynne Field, also in West Texas, 14 wells are currently produc... il and gas from 20 separate completions (several are dually completed). Current production from the field is one million cubic feet of natural gas and 800 barrels of oil per day, with our net interest in the production amounting to approximately 26 percent. Two additional development wells are planned for the Wynne Field in 1974.

The majority of the production potential of our Canadian discoveries has yet to be realized, due, primarily, to distances from established marketing facilities. Quasar Petroleum Ltd., expects to begin delivering natural gas from the four completed wells in the Sylvan Field, in Alberta, during the second half of 1974, upon completion of a gas plant currently under construction. With one additional well expected to be drilled this year, ultimate gas production from the Sylvan Field is expected to be approximately 22 million cubic feet per day. In addition, the field has oil production potential of an estimated 400 barrels per day. Quasar's net interest in the wells is 7 percent.

OIL AND GAS PRODUCTION REVENUES



The A-2 well, in Grizzly Valley, has been tested at 42 million cubic feet of gas per day. The B-1 remains shut in. Completed in the Nikanassin, it has been tested to flow natural gas at 26 million cubic feet per day. The well also tested gas, during drilling, in excess of 7 million cubic feet per day in the Commotion Sand.

One well is currently drilling in the Grizzly Valley Field, and another is scheduled to be drilled in 1974. It is anticipated that future development of the field will entail the drilling of 14 additional wells, to achieve the ultimate production potential of an estimated 300 million cubic feet of gas per day. American Quasar owns a net interest of 18 percent in the Grizzly Valley wells.

To date, Alberta and Southern Gas Co., Ltd., has paid $5,120,000 toward anticipated future deliveries of gas from the Grizzly Valley Field. The contract calls for total advance payments up to $16,500,000 as reserves of natural gas are proved. Pending construction of a pipeline, we expect to begin delivering gas from the field in 1976.

**Only American Quasar's ultimate net interests are expressed in this section. As explained in the shareholders letter, this refers to our Company's working interest in the wells reduced by the 60 percent due the limited partnerships which fund our drilling programs. Properties developed by our Canadian subsidiary, Quasar Petroleum Ltd., are factored to reflect our 81 percent ownership.*

Opposite page:
Drilling deep in a field with existing shallow production, American Quasar discovered the Quito Field, in West Texas. This is the Monroe #3, our fifth well in the field.


BETHLEHEM
ABC

It is our firm conviction of the executive committee of American Quasar Petroleum Co. that whatever success we have — past, present or future — is due to the quality and the capabilities of our people.

As shown in the accompanying chart, our rapidly growing Company experienced a 95 percent increase in personnel during 1973. More significantly, our future net proved production per employee also increased.

This is well-ordered growth. For example, there were nine geologists on our staff in 1973, to originate and evaluate prospects that led to the drilling of the 135 wells in our program — an average of 15 wells per geologist for the entire year.

Throughout our continuing growth, the Company has maintained a policy of seeking the best personnel available, and our criteria are high. We try to ensure, for instance, that every geologist or engineer who joins our staff has at least 15 years' experience in the oil and gas industry — preferably with a major oil company, and with at least 10 years in the geological province in which he will be working. In addition, he should have an excellent track record for finding hydrocarbons.

Those pictured on these pages exemplify the backgrounds and depth of experience of our people, selected to represent several areas critical to our operations.

Picture #1: Left to right: Bobby F. Abernathy, vice president of operations, and Alson H. Douglas, executive assistant to the vice president of operations.

A petroleum engineer, Abernathy has been employed in the oil and gas industry since 1955. He was associated with a major oil company in Canada for 4 years, serving as chief engineer. He joined Quasar Petroleum Ltd. in 1972, and assumed his present position with American Quasar in 1973. Abernathy holds a Bachelor of Science degree in Petroleum Engineering from the University of Texas.

Douglas was an independent petroleum consultant for 13 years before joining American Quasar in September, 1973. He was also employed by a major oil company for eight years as an evaluation engineer. He holds a Bachelor of Science degree in Petroleum Engineering from the University of Texas.

Picture #2: Left to right: Howard Bradford, Herbert E. Ware, Jr., and C. H. Kimbro, all from American Quasar's division office in Midland, Texas.

Bradford, a land man, was employed


3

by a major oil company for seven and a half years before joining American Quasar in July of 1973. He holds a Bachelor of Business Administration degree in Finance from the University of Houston.

Ware, our chief geologist, has been involved in oil and gas exploration for 16 years. Prior to his affiliation with the Company, in 1970, he worked for two independent oil companies, participating in the discovery and/or development of several major oil and gas fields in Texas, Louisiana and New Mexico. He holds Bachelor of Science and Master of Science degrees in Geology from the University of Oklahoma.

Kimbro, geologist, has been with the Company since July, 1973. His 13 years' experience in the oil and gas industry include nine years with a major oil company, plus experience as an independent consulting geologist and as a senior geologist with one of the nation's largest natural gas production and marketing firms. He holds both Bachelor of Science in Chemistry and Master of Science in Geology degrees from the University of Arkansas.

Picture #3: Left to right: Michael W. Milner, Albert J. Cohen, and Norman Pool, all of American Quasar's finance department.

Cohen, secretary and treasurer, has been with the Company since 1970. He was previously employed with national public accounting firms in New York City and Dallas, Texas. A Certified Public Accountant, he holds a Bachelor of Business Administration degree in Accounting and a Master of Business Administration degree in Federal Taxation from City College of New York.

Milner, assistant treasurer — oil and gas, is a Certified Public Accountant employed by the Company since 1971. He was previously associated with an Oklahoma bank and a national accounting firm. Milner holds a Bachelor of Science degree in Accounting from Oklahoma State University.

Pool, corporate controller, was employed for five years with a national public accounting firm before joining American Quasar in 1972. Also a Certified Public Accountant, he holds a Bachelor of Science degree in Business Administration from the University of Arkansas.

Administrative expense
Corporate overhead, including administrative and geological salaries. The Company does not assign overhead to exploration prospects.

Completed well
A well capable of producing oil or gas; or a well drilled to such depth that oil or gas is not likely to be encountered; or a dry hole.

Deep well
A well drilled to a depth between 13,000 feet and 20,000 feet.

Estimated reserves
The amount of oil or gas which is estimated to remain underground, based upon preliminary testing, and prior to delineation of the entire field discovered. All the Company's estimated reserves are based upon independent engineering evaluations.

Exploration expense
Costs incurred in connection with the acquisition and/or evaluation of prospects that are subsequently determined not to justify drilling.

Exploratory success ratio
A percentage reflecting the number of exploratory (wildcat) wells drilled which discovered oil or gas, in relation to the total number of wildcats drilled.

Future net revenues
Projections made by independent engineers of future cash flow from oil and gas sales, after deduction of operating costs. Prices used are based upon contract provisions for natural gas sales and annual escalation of oil prices up to $10.00 per barrel.

Hydrocarbons
Oil, condensate, or natural gas.

Intangible costs
All expenditures incident to and necessary for the drilling of oil or gas wells and the preparation of wells for production. In general, these are expenditures for items which, in themselves, do not have a salvage value — as defined by the Internal Revenue Service.

Joint venture
Exploration and development activities conducted by the Quasar companies in participation with public limited partnerships formed and managed by Can-Am.

Prospect
A block of land in which drilling rights have been accumulated, deemed by engineering, geological and geophysical evaluations, economic and other data to be attractive for prospecting for oil or gas.

Proved reserves
The estimated quantities of oil or gas which, through testing, have been proven to exist underground after the delineation of a discovered field.

Reserves
The estimated quantity of oil or gas which remains underground to be used or sold.

Revenues
Gross receipts or receivables from sales before the deduction of related costs.

Shut-in well
A well with proven reserves which are ready for production, but which has been closed off until the means of transportation of the product is available (usually until the construction of a pipeline in close proximity to the well).

Tangible costs
Costs of materials associated with the drilling and/or operation of a well which, by their physical nature, have a salvage value. These include, but are not limited to, casing, tubing, pipe, tanks, boilers and engines.

Ultra-deep well
A well drilled to 20,000 feet or below.

Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of the Company's subsidiaries.

Acquisition costs of undeveloped properties and related geophysical costs are capitalized. Such costs associated with productive properties are depleted on a lease by lease unit of production method based on estimated recoverable reserves of oil and gas. The costs associated with properties which are drilled and abandoned are borne by the limited partnerships, while 40% of the costs associated with abandoned properties which are not drilled are charged to operations and 60% are charged to the limited partnerships.

Productive properties are evaluated periodically on a group basis, and any excess of unrecovered costs, including equipment, of such properties over estimated future net revenues is reflected in operations. A group consists of certain related properties which were substantially developed when acquired, or consists of the Company's proportionate ownership of all joint venture properties with a particular limited partnership. Well equipment and gathering facilities are amortized on a straight line basis over the lesser of their estimated useful lives or the remaining life of the related property (12 to 30 years). Unrecovered costs of productive properties are charged to operations at the time they are determined to be uneconomical.

The Company's wholly owned subsidiary, Canadian American Resources Fund, Inc., (Can-Am) has acquired interests in certain limited partnerships which it sponsored through direct investment in the partnerships when formed and by purchase of interests from limited partners. The direct investment, primarily representing drilling and exploration expenditures to be incurred, and the purchased interests, primarily representing acquisition costs of oil and gas reserves, are initially carried at cost. Commencing with the second full calendar year of each partnership's operations, Can-Am accounts for these investments on the equity basis. Prior to that time, the partnerships' activities are generally of an exploratory and developmental nature and its operating results and Can-Am's proportionate ownership are not material.

The excess of Can-Am's investment over the underlying net assets of the limited partnerships (consisting primarily of the limited partnership's expenditures for all drilling and exploration activities, less partnership indebtedness) amounting to $300,000 at December 31, 1973, is generally attributable to repurchasing interests from limited partners at amounts in excess of the underlying net book assets of the partnerships and is amortized over the estimated future net revenues to be distributed by each partnership.

Income per common share for 1973 and loss per common share for 1972 are based on the weighted average of shares outstanding during the year after considering outstanding options to purchase stock of the Company.

Description of Joint Venture Agreements and Sponsorship of Limited Partnerships

Canadian-American Resources Fund, Inc., (Can-Am) is the managing general partner for limited partnerships previously formed and to be formed in the future and has full exclusive discretion in the management and control of such limited partnerships; Quasar Petroleum Ltd. (Canadian Quasar), an 81% owned subsidiary, acts as the non-managing general partner for the partnerships. Unless specifically excluded from liability, Canadian Quasar and Can-Am, as general partners, are jointly and severally liable for all indebtedness of the limited partnerships in excess of the limited partnership's assets. Can-Am receives semi-annual management fees from previously formed limited partnerships and, commencing in 1973, received certain fees when the limited partnerships were formed. Can-Am also receives reimbursements for overhead costs incurred on behalf of the limited partnerships.

The Company and Canadian Quasar are parties to joint venture agreements with Can-Am which expire in 1975. Among other things, the agreements grant limited partnerships sponsored by Can-Am the right to participate in all oil and gas prospects assembled by the Company and Canadian Quasar. The limited partnerships pay certain costs deductible for United States income tax purposes and earn a 60% working interest in joint venture properties while the Company and Canadian Quasar are committed to pay certain costs which are not deductible for United States income tax purposes and earn a 40% working interest in joint venture properties. The limited partnerships are also charged with 60% of the shared costs and the Company and Canadian Quasar are charged with 40% of the shared costs, being the costs of property and equipment acquired which are necessary and required for treating oil and gas production for market, the cost of any pipeline facilities required by a purchaser of production, the cost of secondary recovery systems, the cost of offshore production and storage platforms and related platform and gathering facilities, and the cost of any additional leases or leasehold interests purchased by a joint venture from third parties after a well on a drilling prospect has been drilled to a depth sufficient to indicate that such purchase would be in the best interests of the joint ventures. The limited partnerships' 60% portion of shared costs is paid only out of partnership revenues or partnership borrowings against such revenues. The limited partnerships also bear 60% of the Company's and Canadian Quasar's overhead allocable to the joint venture.

Costs incurred in connection with the joint ventures with limited partnerships through which the Company and Canadian Quasar conduct substantially all of their exploration and production activities, and their proportionate share of joint venture operations have been included in the financial statements.

Consolidated Statements of Income, Operations and Deficit

	Year ended December 31, 1973	1972
Revenue		
Oil and gas sales	**$2,487,000**	$1,302,000
Management fees from limited partnerships, net of $3,657,000 expenses in 1973	**590,000**	133,000
	3,077,000	1,435,000
Expenses		
Production and operating	**708,000**	507,000
Exploration	**45,000**	106,000
Depreciation and depletion	**913,000**	810,000
Administrative	**1,014,000**	574,000
Interest, net of interest income	**333,000**	153,000
Minority interest in losses of subsidiary	**(69,000)**	(62,000)
	2,944,000	2,088,000
NET INCOME (LOSS)	**133,000**	(653,000)
Deficit — beginning of period	**2,430,000**	1,777,000
Deficit — end of period	**$2,297,000**	$2,430,000
Net Income (Loss) Per Common Share	**$0.03**	($0.15)

Consolidated Statement of Changes in Common Shares, Treasury Shares and Additional Paid-in Capital

	January 1, 1972 to December 31, 1973 Dollars			Shares	
	Common Shares	Treasury Shares	Additional Paid-In Capital	Common Shares	Treasury Shares
Balance — January 1, 1972	$2,657,000	($2,000)	$2,713,000	4,291,000	15,059
Increase in equity in net assets of subsidiaries resulting from sale of shares by subsidiary	—	—	1,610,000	—	—
Shares issued for cash	125,000	—	—	39,000	—
Balance — December 31, 1972	2,782,000	(2,000)	4,323,000	4,330,000	15,059
Increase in equity in net assets of subsidiaries resulting from sale of shares by subsidiary	—	—	151,000	—	—
Shares issued for cash	61,000	—	—	10,068	—
Balance — December 31, 1973	$2,843,000	($2,000)	$4,474,000	4,340,068	15,059

Consolidated Balance Sheets

ASSETS

	December 31, 1973	1972
Current assets		
Cash	$ 1,312,000	$ 1,422,00
Accounts receivable		
Trade	1,703,000	1,166,00
Limited partnerships (Notes 1 and 3)	1,823,000	1,141,00
Gas purchasers	—	1,333,00
Insurance (Claim covering cost of control and redrilling a well)	—	1,117,00
Total current assets	4,838,000	6,179,00
Oil and gas properties (Note 3)		
Developed properties	3,290,000	2,362,00
Well equipment and gathering facilities	6,634,000	3,295,00
Undeveloped properties	6,762,000	2,035,00
Drilling in progress and warehouse inventory	2,940,000	667,00
	19,626,000	8,359,00
Less		
Accumulated depreciation	959,000	582,00
Accumulated depletion	1,062,000	745,00
	2,021,000	1,327,00
	17,605,000	7,032,00
Other Assets		
Noncurrent receivables from limited partnerships (Notes 1 and 3)	9,888,000	2,915,00
Investment in limited partnerships (Note 6)	857,000	141,00
Other	543,000	288,00
	11,288,000	3,344,00
	$33,731,000	$16,555,00

Certain of the accounts at December 31, 1972, have been reclassified to conform with the December 31, 1973, account classifications.

LIA[illegible]ES AND SHAREHOLDERS EQUITY

	December 31, 1973	1972
Curr[illegible]ilities		
[illegible]nt portion of long-term indebtedness (Note 3)	**$ 1,495,000**	$ 1,146,000
[illegible] payables and accrued liabilities	**5,125,000**	3,001,000
[illegible]otal current liabilities	**6,620,000**	4,147,000
Lon[illegible]ndebtedness (Note 3)	**18,855,000**	4,528,000
Adv[illegible]m gas purchasers (Note 2)	**2,638,000**	2,600,000
Min[illegible]erest (Note 4)	**600,000**	607,000
Shar[illegible]s equity (Note 4)		
[illegible]on shares, without par value: 10,000,000 shares [illegible]orized; 4,340,068 shares issued (4,330,000 at [illegible]ember 31, 1972)	**2,843,000**	2,782,000
[illegible]5,059 treasury shares at cost	**2,000**	2,000
	2,841,000	2,780,000
[illegible]onal paid-in capital	**4,474,000**	4,323,000
[illegible]	**(2,297,000)**	(2,430,000)
	5,018,000	4,673,000
Comn[illegible] and contingent liabilities (Note 6)		
	$33,731,000	$16,555,000

On beha[illegible] of the Board
Wilford B. Fultz, *Chairman of the Board*
David A. McMahon, *Vice Chairman of the Board*

The accompanying Summary of Significant Accounting Policies, Description of Joint Venture Agreements and Sponsorship of Limited Partnerships, and Notes to Consolidated Financial Statements are integral parts of these financial statements.

	Year ended December 31, 1973	1972
Financial Resources Were Provided By:		
Working capital provided by operations		
Net income (loss) before minority interests	**$ 64,000**	$ (715,000)
Depreciation, depletion, exploration costs and other charges not affecting working capital	**756,000**	784,000
Working capital provided by operations	**820,000**	69,000
Issue by subsidiary of shares to minority interest	**213,000**	2,170,000
Issue of shares by company	**61,000**	125,000
Advances from gas purchasers	**240,000**	2,194,000
Increase in long-term indebtedness (net of repayments)	**14,327,000**	3,443,000
Proceeds from sale of producing properties	—	396,000
Other	—	140,000
	15,661,000	8,537,000
Financial Resources Were Used For:		
Investments in limited partnerships	**749,000**	58,000
Expenditures in connection with oil and gas properties	**11,395,000**	3,147,000
Advances to limited partnerships (net of repayments)	**6,973,000**	1,151,000
Other	**358,000**	185,000
	19,475,000	4,541,000
Increase (decrease) in working capital during period	**$ (3,814,000)**	$3,996,000

ANALYSIS OF CHANGES IN CONSOLIDATED WORKING CAPITAL

Current assets — increase (decrease)		
Cash	**$ (110,000)**	$ 662,000
Receivables		
— trade	**537,000**	679,000
— gas purchasers	**(1,333,000)**	1,333,000
— limited partnerships	**682,000**	655,000
— insurance (claim covering cost of control and redrilling a well)	**(1,117,000)**	1,117,000
Current liabilities (increase) decrease		
Current portion of long-term indebtedness	**(349,000)**	847,000
Trade payable and accrued liabilities	**(2,124,000)**	(1,297,000)
Increase (decrease) in working capital during period	**(3,814,000)**	3,996,000
Working capital (deficit), beginning of period	**2,032,000**	(1,964,000)
Working capital (deficit), end of period	**$(1,782,000)**	$2,032,000

**AMERICAN QUASAR PETROLEUM CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1973 AND 1972**

1. Receivables from Limited Partnerships

The Company has advanced and may continue to advance to the limited partnerships, funds for limited partnership drilling activities; such advances are recoverable only out of limited partnership revenues and assets. Details of receivables from limited partnerships are as follows:

December 31,	1973	1972
Secured by mortgages (a)	$ 9,611,000	$3,135,000
Unsecured (b)	2,100,000	921,000
	11,711,000	4,056,000
Less current portion	1,823,000	1,141,000
	$ 9,888,000	$2,915,000

(a) The Company has agreed with certain of the limited partnerships to advance funds to such limited partnerships in amounts based upon independent engineering evaluations of the limited partnerships' proved developed oil and gas properties. Such advances are secured by mortgages covering the limited partnerships' proved developed properties and bear interest at a rate equal to one-half of 1% above the interest rate which the Company pays to borrow funds from lending institutions.

(b) Such advances to certain of the limited partnerships generally bear interest at a rate equal to the interest rate which the Company pays to borrow funds from lending institutions. The assets of such limited partnerships, consisting primarily of estimated future revenues from oil and gas properties based upon independent engineering reports, are deemed sufficient to assure repayment of such obligations.

2. Advances From Gas Purchasers

The Company has entered into gas purchase contracts for the sale of natural gas from certain U. S. leases and has received thereunder advance gas payments aggregating $1,200,000. The gas purchaser is entitled to be repaid only out of 25% to 30% of the Company's share of revenues from the wells for the first five years and 100% thereafter until the advance is fully repaid.

Quasar Petroleum, Ltd., has entered into a gas purchase contract for the sale of natural gas from certain Canadian leases and has received thereunder advance gas payments aggregating $1,690,000. The gas purchaser is entitled to be repaid out of 25% of revenues from the wells based upon the minimum contract quantities of gas delivered and 50% of revenues in excess thereof for the first five years and 50% of all revenues thereafter until 110% of the advances are fully repaid. The gas purchaser can only recover these advances from such portions of revenues from production. Under certain circumstances, the gas purchaser is entitled to receive interest on such advances, payment of which is secured by the leases and production therefrom with Quasar Petroleum Ltd. having no other obligation. Initial sales of gas are estimated to commence in 1977.

3. Long-Term Indebtedness and Pledge of Assets

Long-term indebtedness consists of the following obligations:

December 31,	1973	1972
Banks (a)	$17,431,000	$4,720,000
Banks (b)	2,000,000	—
Other	919,000	954,000
	20,350,000	5,674,000
Less current maturities	1,495,000	1,146,000
	$18,855,000	$4,528,000

(a) During 1973 the Company entered into an agreement with certain banks and borrowed an aggregate of $17,575,000 bearing interest at 2% above the banks' prime rate of interest repayable in monthly installments. The annual amounts of such installments are:

1974 - $1,212,000	1977 - $4,398,000
1975 - $2,340,000	1978 - $3,180,000
1976 - $4,692,000	1979 - $1,609,000

Among other things, the loan agreement contains certain restrictions on further borrowings, pledging or mortgaging of properties or assets, and on declaration of dividends and, in addition, provides accelerated principal payments under certain conditions. The indebtedness is secured by substantially all of the Company's U.S. oil and gas properties, its investment in Quasar Petroleum Ltd., and receivables from limited partnerships amounting to $9,931,000 and $3,136,000 at December 31, 1973, and December 31, 1972, respectively.

(b) Such indebtedness bears interest at ½ of 1% above the bank's prime rate, is secured by certain Canadian oil and gas properties and is payable in monthly installments in the annual amounts of:

1974 - $180,000	1977 - $480,000
1975 - $360,000	1978 - $480,000
1976 - $480,000	1979 - $ 20,000

4. Shareholders Equity

The Company has adopted a qualified stock option plan for key employees. Under the plan the exercise price is the fair market value of the common stock at the date of grant. The options are exercisable as to 20% of the shares covered thereby immediately, with an additional 20% of such shares becoming exercisable at the end of each successive year following the date of grant of each such option, and all options must be exercised within five years from date of grant. At December 31, 1973, there were 142,722 shares of the Company's common shares reserved for grants under this plan of which options for 14,920 shares and 66,170 shares remained available for grant at December 31, 1973 and December 31, 1972 respectively. Through December 31, 1973 options had been granted to purchase a total of 135,080 shares of common stock.

Options to purchase 127,802 shares were unexercised at

December 31, 1973, details of which are:

Year of grant	Number of shares	Option price (market value at date of grant)	Options which became exercisable: Number of shares	Market value at dates shares became exercisable: Per share	Market value at dates shares became exercisable: Total	Total option price
1971	6,552	\$ 5.00-\$ 5.25	1,800	\$ 5.25-\$12.00	\$ 16,000	\$ 9,000
1972	63,700	\$ 5.00-\$11.50	25,480	\$ 5.00-\$19.75	\$292,000	\$209,000
1973	57,550	\$11.25-\$18.25	10,870	\$11.25-\$18.25	\$139,000	\$139,000

The details with respect to options to purchase 7,278 shares which were exercised are:

Date of exercise	Number of shares	Option price	Market value at date Options were exercised: Per share	Market value at date Options were exercised: Total	Total option price
March 5, 1973	3,552	\$ 5.00	\$17.63	\$62,622	\$17,760
April 13, 1973	1,776	\$ 5.00	\$18.75	\$33,300	\$ 8,880
April 17, 1973	150	\$11.50	\$18.00	\$ 2,700	\$ 1,725
October 6, 1973	1,000	\$ 8.00	\$14.50	\$14,500	\$ 8,000
December 28, 1973	800	\$11.25	\$15.75	\$12,600	\$ 9,000

In addition, the Company granted an option not covered by the plan to an officer on August 1, 1972 to purchase 6,800 shares of the common stock of the Company at a price of \$4.30 per share, the market value of such share on the date of such grant being \$8.60 per share, exercisable at any time during a period of two years from the date of the grant. Options for 2,790 of such shares were exercised during 1973. The market value at date of exercise was \$15.50 per share.

At December 31, 1972, and December 31, 1973, 20,000 common shares were reserved for the exercise of certain currently exercisable options granted to an underwriter to acquire 20,000 shares at \$3.50 each (market value at date of grant). Such options expire in 1974. The underwriter exercised options for 17,500 shares at \$3.50 each during 1972.

Quasar Petroleum, Ltd., has reserved 19,850 shares of its common stock for the exercise of options granted to employees, details of which are:

Date of grant	Number of shares	Option price (market value at date of grant)
August, 1972	14,850	\$ 6.50
October, 1973	2,000	\$ 8.70
December, 1973	3,000	\$ 5.60

The option granted August, 1972, is exercisable at any time during a period of five years from the date of the grant; the option granted October, 1973, is exercisable as to 1,000 shares October, 1974 and 1,000 shares October, 1975; and the options granted December, 1973, are exercisable commencing with the date of the grant as to 20% each year on the anniversary date thereof.

During 1973, options for 5,150 shares previously granted to an officer and director at a price of \$3.25 per share (market value on the date of grant was \$6.50) were exercised. Market value at date of exercise was \$8.15.

In connection with the previously mentioned option agreements, compensation was charged to operations to the extent that the option price was less than fair value at date of grant; no charges to operations are made for options which are granted at a price equal to market value. When options are exercised the proceeds received, and any compensation recognized, is credited to the appropriate capital account.

In addition, Quasar Petroleum, Ltd., entered into agreements with key employees whereby 14,500 shares of Quasar Petroleum, Ltd's., common stock were subscribed for at prices ranging from \$8.70 to \$10.75 (market value at date of agreements). The total purchase price is payable three years from date of the agreements (\$135,535 March 1976, and \$43,500 October 1976) or in three equal annual installments at the employee's option. The shares purchased have been pledged as security and can only be released upon payment.

Outstanding warrants to purchase 733,700 common shares of Quasar Petroleum, Ltd., became exercisable on December 25, 1970 and entitled the holder thereof to purchase one common share of Quasar Petroleum, Ltd., at a price of \$2.50 until June 26, 1971, and thereafter at a price of \$5.00 until June 26, 1972, on which date they expired: warrants for 453,015 shares were exercised at a price of \$5.00 per share during 1972.

5. Income Taxes

The Company and its United States subsidiaries file a consolidated federal income tax return. The consolidated group had net operating losses from prior years for both financial and tax purposes, and follows the policy of allocating consolidated income tax charges and credits, and providing charges in lieu of taxes, based on each member's contribution to consolidated income or loss. Provisions for current or deferred income tax charges or credits were not necessary in

prior years. The consolidated group has approximately $1,300,000 of net operating loss carryforwards which expire as follows:

1974	$ 35,000
1975	175,000
1976	865,000
1977	225,000

The principal differences between recognition of income for tax and for financial reporting purposes arise primarily from (i) reporting on the cash method of accounting for tax purposes and the accrual method for financial purposes by certain subsidiaries, (ii) differences between financial and tax basis of certain assets, (iii) using accelerated depreciation for tax purposes and straight line depreciation for financial purposes and (iv) differences between statutory depletion and cost depletion. It was not necessary to calculate a provision for current or deferred income tax charges or credits since certain of such differences, which reduced the current year's financial net income of the United States consolidated group to a statutory tax loss, are not anticipated to enter into the calculation of future statutory taxable income or result in any future material United States tax liability.

Quasar Petroleum, Ltd., has incurred losses aggregating $1,400,000 since inception for financial purposes. For Canadian income tax purposes, Quasar Petroleum, Ltd., is entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which exceed the related charges to operations. For income tax purposes, Quasar Petroleum, Ltd., has losses and unclaimed expenditures aggregating $7,000,000 which are available to be applied against future taxable income.

6. Repurchase Commitment and Contingent Liabilities

Quasar Petroleum, Ltd., and Canadian-American Resources Fund, Inc., are committed to repurchase limited partnership interests if tendered, at a price based upon a formula contained in the limited partnership agreements, which price is calculated by an independent petroleum engineer and is based primarily on the estimated value of the partnerships' assets as of the date of such calculation. With regard to partnerships formed after December 31, 1973, the maximum aggregate amount of such commitment will be equal to 10% annually of total subscriptions. The repurchase commitment in regard to certain previously formed limited partnerships, which may be less than, but in no event will be more than $52,782,000, on an annual basis is:

1974	$ —
1975	2,400,000
1976	5,300,000
Annually thereafter	5,300,000

These subsidiaries are also committed to purchase limited partnership interests by direct investment in limited partnerships to be formed in 1974 and 1975. Such investment will be equal to at least 1% of the total contributions to the capital of each limited partnership.

Unless specifically excluded from liability the subsidiaries, as general partners, are jointly and severally liable for all indebtedness of the limited partnerships in excess of the limited partnerships' assets. At December 31, 1973, several wells were in the process of drilling; consequently, the limited partnerships have not incurred all expenditures for which they were obligated.

At December 31, 1973, there were a substantial number of wells which were in the process of drilling, consequently the Company has not incurred all expenditures for which it was obligated.

7. Statutory Information

Aggregate direct remuneration paid by the Company and its subsidiaries to the directors and senior officers of the Company amounted to $344,000 for the year ended December 31, 1973. During the year, there were a total of 9 directors and 8 officers, 5 of whom served in both capacities.

Report of Independent Accountants

To the Board of Directors of
American Quasar Petroleum Co.

In our opinion the consolidated financial statements appearing on pages 19 through 26 of this report present fairly the consolidated financial position of American Quasar Petroleum Co. and its subsidiaries at December 31, 1973 and 1972 and the results of their operations and changes in financial position for the years then ended in accordance with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

Price Waterhouse & Co.

Fort Worth, Texas
March 28, 1974

FINANCIAL

	Years ended December 31,			
	1973	1972	1971	1970
		(A)	(A)	(A)
Revenue				
Oil and gas sales	**$2,487,000**	$1,302,000	$1,056,000	$1,214,000
Management fees from limited partnerships	**590,000**	133,000	26,000	—
	3,077,000	1,435,000	1,082,000	1,214,000
Expenses				
Production and operating	**708,000**	507,000	496,000	593,000
Exploration	**45,000**	106,000	132,000	510,000
Depreciation and depletion	**913,000**	810,000	455,000	412,000
Administrative	**1,014,000**	574,000	596,000	316,000
Interest, net of interest income	**333,000**	153,000	73,000	12,000
Writedown of oil property	**—**	—	—	561,000
Minority interest in losses of subsidiary	**(69,000)**	(62,000)	(20,000)	(12,000)
	2,944,000	2,088,000	1,732,000	2,392,000
Net income (loss) before extraordinary item	**133,000**	(653,000)	(650,000)	(1,178,000)
Gain on sale of producing oil property	**—**	—	—	116,000
NET INCOME (LOSS)	**$ 133,000**	($ 653,000)	($ 650,000)	($1,062,000)
Net income (loss) per common share				
Before extraordinary item	**$0.03**	$(0.15)	$(0.15)	$(0.28)
Extraordinary item	**—**	—	—	0.03
Net income (loss) per common share	**$0.03**	$(0.15)	$(0.15)	$(0.25)
Number of common shares used to compute loss per share	**4,335,000**	4,303,000	4,283,000	4,283,000
Working capital provided by (applied to) operations	**$ 820,000**	$ 69,000	$ (72,000)	$ 273,000
Increase (decrease) in working capital during the period	**(3,814,000)**	3,996,000	(1,243,000)	(1,839,000)
Net cumulative investment in oil and gas properties	**19,626,000**	8,359,000	5,841,000	4,333,000
Total assets	**33,731,000**	16,555,000	8,976,000	5,180,000
Stockholders equity	**5,018,000**	4,673,000	3,591,000	3,806,000
Stockholders equity per share	**$1.16**	$1.08	$.84	$.89

		Years drilling operations commenced			
OPERATIONAL		**1973**	1972	1971	1970
New field exploratory success ratio, based on gross wells.					
Company:	Average 1970-73				
United States	24.7%	**25.0%**	27.6%	19.1%	33.3%
Canada (all in Western Canada)	26.5%	**28.6%**	27.9%	17.7%	29.2%
Composite	25.6%	**25.9%**	27.8%	18.4%	29.6%
Industry:					
United States	10.2%	**(B)**	11.1%	9.7%	9.7%
Western Canada	17.2%	**(B)**	20.2%	16.5%	14.1%
Composite	10.9%	**(B)**	12.1%	10.4%	10.1%
Oil and condensate production (barrels)		**289,978**	216,329	172,047	161,600
Gas production (millions of cubic feet)		**3,473**	2,082	921	768
Oil and condensate reserves (barrels)		**1,675,000**	1,166,000	1,790,000	914,000
Gas reserves (millions of cubic feet)		**122,000**	63,000	22,000	600
Number of employees		**105**	54	36	28

(A) Periods prior to 1973 have been reclassified to conform to 1973 account classifications.
(B) Industry exploratory success ratio data is not available for 1973.

BOARD OF DIRECTORS

C. O. Ted Collins, Jr.,
Midland, Texas
Wilford B. Fultz,
Fort Worth, Texas
Robert E. Kellerman,
Fort Worth, Texas
Leon Levy,
New York, New York
Richard L. Lowe,
Fort Worth, Texas
Robert G. McCulloch,
Toronto, Ontario
David A. McMahon,
Fort Worth, Texas
Walter A. Schmid, Jr.,
Fort Worth, Texas
Glenn C. Speakman,
Toronto, Ontario

OFFICERS

Wilford B. Fultz,
Chairman of the Board of Directors
David A. McMahon,
Vice Chairman of the Board of Directors
Walter A. Schmid, Jr.,
Chairman of the Executive Committee
Richard L. Lowe,
President
C. O. Ted Collins, Jr.,
Executive Vice President
Bobby F. Abernathy,
Vice President
Albert J. Cohen,
Secretary and Treasurer

LEGAL COUNSEL

Turner, Hitchins, McInerney, Webb & Hartnett,
Dallas, Texas
Saucier, Jones, Black, Gain, Stratton & Laycraft,
Calgary, Alberta

Note: The Company's annual report on Form 10K, as filed with the Securities and Exchange Commission, is available to any shareholder upon request. Please address all such requests to the Secretary; American Quasar Petroleum Co.; 2200 Continental National Bank Building; Fort Worth, Texas 76102.

OFFICES

General Office:
2200 Continental National Bank Building
Fort Worth, Texas 76102
(817) 335-4701

Exploration Offices:
606 Vaughn Building
Midland, Texas 79701
(915) 682-3737

720 Calgary Place No. 1
Calgary, Alberta T290L4
(403) 261-5820

Suite 1415
233 O'Keefe Avenue
New Orleans, Louisiana 70112
(504) 586-8353

2015 United Bank Tower
1700 Broadway
Denver, Colorado 80202
(303) 623-5775

Field Offices:
Suite 435 Petroleum Building
Jackson, Mississippi 39201
(601) 948-3481

Pacific Western Life Building
152 North Durbin
Casper, Wyoming 82601
(301) 237-9501

REGISTRAR AND TRANSFER AGENT

The Royal Trust Company
Calgary, Alberta and Toronto, Ontario
Continental National Bank
Fort Worth, Texas

SHARES LISTED

Toronto Stock Exchange (Symbol AQPT)
NASDAQ (Symbol AQAS)—Over-the-Counter (U.S.)

INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co.

SUBSIDIARY COMPANIES

Quasar Petroleum, Ltd.
(81% Owned)
Canadian-American Resources Fund, Inc.
(100% Owned)

Opposite page:
The Newton Sheep Co. #1 (Pineview Prospect) being drilled for American Quasar and its partners in Summit County, Utah.